

18 DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

125 BUREAU OF REVENUE SERVICES

INCOME/ESTATE TAX DIVISION

Chapter 805: COMPOSITE FILING

SUMMARY: This rule establishes procedures for filing of composite returns of income by partnerships, estates, trusts, and S corporations on behalf of partners, beneficiaries, or shareholders.

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SECTION 1. DEFINITIONS

1. **Composite Return.** "Composite return" means the Maine income tax return filed by an entity in accordance with this rule on behalf of some or all of its partners, beneficiaries, or shareholders who are "eligible persons," as defined in Section 1(3) below.
2. **Electing Small Business Trust.** "Electing Small Business Trust" ("ESBT") has the same meaning as given to that term by Internal Revenue Code Section 1361(e).
3. **Eligible Person.** "Eligible person" means:
 - A. an individual who is a nonresident individual for the entire taxable year, and whose entire Maine adjusted gross income, including spouse's income in the case of married individuals filing a joint return, is from one or more entities;
 - B. that portion of a federally recognized ESBT or QSST that consists of holdings of stock in an S corporation; or

- C. a nonresident trust or nonresident estate that has its entire Maine-source income for the taxable year from one or more entities, would have included such income as Maine taxable income if it were to file an income tax return for that year, and has not distributed any of its Maine-source income for the taxable year to its beneficiaries as distributable net income ~~but would have included such income as Maine taxable income if it were to file an income tax return for that year~~.
4. **Entity.** "Entity" means a partnership, limited partnership, limited liability partnership, estate, trust, or S corporation. "Entity" also includes a limited liability company classified as a partnership or S corporation for federal income tax purposes.
5. **Entity Income.** "Entity income" means an eligible person's distributive share of the net income of an entity, apportioned to Maine in accordance with 36 MRSA, Chapter 821.
- "Entity income" for an ESBT means the ESBT's distributive share of net income of an S corporation taxable pursuant to Internal Revenue Code, Section 641(c), and apportioned to Maine in accordance with 36 MRSA, Chapter 821. If an ESBT holds stock in more than one S corporation, the entity income of each holding must be determined separately for purposes of this rule.
6. **Qualified Subchapter S Trust.** "Qualified Subchapter S Trust" ("QSST") has the same meaning as given to that term by Internal Revenue Code Section 1361(d)(3).
7. **Tiered Entity Structure.** "Tiered entity structure" means an arrangement in which some or all of the interests in one entity ("lower tier entity") are held by another entity ("upper tier entity"). A tiered entity structure may have two or more tiers.

SECTION 2. FILING OF RETURNS

1. **Generally.** An entity may file a composite return on behalf of its partners, beneficiaries, or shareholders who are eligible persons and who elect to participate in the composite filing. Upon request and approval, the State Tax Assessor may allow an entity to file a composite return on behalf of its partners, beneficiaries or shareholders who elect to participate in the composite filing, but would not otherwise qualify to file such a return under this rule.

Eligible persons who are included in the composite filing will be deemed to have filed a Maine income tax return for the period covered by the composite return. Eligible persons who participate in the composite filing are personally liable for the tax amount reported on their behalf in the composite return and any tax, interest or penalty which may be assessed for that period in the same way as if a composite return had not been filed. The State Tax Assessor reserves the right to require the filing of a Maine nonresident individual income tax return by any of the eligible persons included in the composite return. Eligible persons are not

jointly and severally liable for the tax, interest or penalty imposed on any other unrelated eligible person or the entity solely because of that eligible person's membership interest in the entity. *See* 36 MRSA § 5190.

2. **Information required.** The composite return must include, at a minimum, the name and taxpayer identification number of each eligible person included in the return, the amount of each eligible person's distributive share of taxable entity income and the tax thereon, the amount of each eligible person's share of any business tax credit claimed under 36 MRSA § 5219-G, the amount of any payments previously made and applied to each eligible person's tax liability, and the amount of payment included with the return and applied to each eligible person's tax liability. The form must be complete and include all information and schedules required by law including, without limitation, Form 1040ME, and Schedule 1040C-ME, ~~and Schedule NRC.~~
3. **ESBTs and QSSTs.** To be an eligible person, an ESBT must be a nonresident trust for Maine income tax purposes, in accordance with 36 MRSA, Chapter 813. A beneficiary of a QSST must be a nonresident for Maine income tax purposes for the QSST to qualify as an eligible person. If an ESBT holds stock in more than one S corporation, each stock holding must be considered separately for determining eligibility and must be treated as a separate eligible person for the purposes of this rule.
4. **Composite Returns for Tiered Entity Structure:** An upper tiered entity may file a single composite return on behalf of the non-resident members (including members, partners, shareholders, or beneficiaries) in a tiered entity structure, where the nonresident members are eligible persons. The following additional requirements must be met:
 - A. Each of the lower tier entities (including any related pass-through entity) with individual members that elect to participate must agree to have its electing members included in the composite return and each lower tier entity must not file a separate return.
 - B. A schedule must be attached to the composite return indicating each member's distributive share of Maine-source income from each tiered entity, and the total amount of Maine-source income received by each member from all tiered entities in the tiered entity structure; and
 - C. A statement must be attached to the composite return, including an organizational chart, disclosing the structure and identity, including the names, addresses and federal identification numbers, of all the related entities from which participating nonresident members directly or indirectly derive Maine-source income.

SECTION 3. ELECTION TO PARTICIPATE IN COMPOSITE FILING

An entity filing a composite return must obtain written authorization, in a form prescribed by the State Tax Assessor from those eligible persons included in the composite return, to file a Maine individual income tax return on their behalf. The filed composite return

constitutes a statement that authorization has been obtained from each included eligible person. By granting such authorization an eligible person waives any right to claim income modifications, deductions, exemptions, and credits allowable as a nonresident individual under the Maine Income Tax Law, other than business credits specified in 36 MRSA § 5219-G for which no income modification or election is indicated. An eligible person also waives any right to file an amended return to amend the reporting of any item reported by the entity, except through an amended composite return filed by the entity, for any taxable year for which a composite filing has been made on the eligible person's behalf. By granting the authorization, an eligible person agrees to be subject to the personal jurisdiction of the State of Maine and its agencies and courts for the purposes of determining and collecting Maine income tax, interest, and penalties.

SECTION 4. COMPUTATION OF TAX

The Maine income tax liability of each eligible person who elects to be included in a composite return is equal to the person's entity income multiplied by the highest marginal rate provided in 36 MRSA § 5111(1-A).

SECTION 5. BUSINESS CREDITS

Each participating eligible person may claim the person's share of the business credits to which the eligible entity is entitled provided that the credit is one for which no income modification or election is indicated. (See 36 MRSA § 5219-G.)

SECTION 6. PAYMENT OF TAX

An entity may make estimated or actual payments of Maine income tax on behalf of participating eligible persons. The payment must be accompanied by a schedule that includes, at a minimum, the name and taxpayer identification number of each person on whose behalf a payment is being made, the amount of the payment allocable to each person, and an indication that each person either has or has not elected to file on a composite return for that taxable year. The eligible person must ensure payments of estimated tax are made as required by 36 MRSA § 5228.

SECTION 7. AMENDED RETURNS

A composite return may not be changed or corrected except by an amended composite return filed by the entity.

SECTION 8. TAXABLE YEARS

Notwithstanding the provisions of 36 MRSA §§ 5102(1-C) and (11), the taxable year of an eligible person included in a composite return is the taxable year of the entity, and the Maine adjusted gross income of an eligible person included in a composite return is that person's entity income for that taxable year.

SECTION 9. DUE DATE

The due date of the composite return is the fifteenth day of the fourth month following the close of the taxable year of the entity.

STATUTORY AUTHORITY: 36 MRSA §§ 112, 5192(5)

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